Wal-Mart Gold

Lesson One Transcript

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Michael: So, what are we going to cover in this training on how to get your product into the mass merchandisers? Can we go over some of the topics that the listeners can expect to learn about?

Joe: Sure. There's a bunch of them and we've got them sort of in the order that makes sense. The first thing after the introduction is how to tell if you're ready to sell to the mass merchants.

The next thing is how to get started in other distribution channels or with other kinds of retailers if you're not ready for the big change yet.

The next section after that is how to tell how big your market is, and then a very important one is how does the mass merchant buyer think, how their performance is measured, and why do you need to know this.

Then the next Section 6 is how to create a winning product.

Section 7 is how to evaluate the market ability of an idea or product.

Section 8 is how to do the licensing. How to sell your idea or product to a company who will distribute it for you.

Section 9 is how to set up a joint venture.

Section 10 is some points on how to start a business if you're going to start from scratch and build a manufacturing company.

Section 11 is packaging, of which there are many issues that you need to know about the packaging.

Section 12 is merchandising. Merchandising meaning how the product is displayed in the stores.

Section 13 is advertising, promotion, and publicity.

Section 14 is selling non-mass market buyers.

Section 15 is preparing for sales calls. What you need to do before you make that sales call.

Section 16 is how to find sales reps.

Section 17 is how do you work with a sales rep.

Section 18 is trade shows and what you need to know about those.

Section 19 is financial requirements. What do you need to do to be in the game financially?

Section 20 is how I can help you.

Michael: The people listening to this seminar here or this information product, they really want to know from the beginning, is it possible to actually get a product into Wal-Mart these days even if I'm a little guy?

Joe: Yes.

Michael: How do you know that?

Joe I've done it twice and the two times that I did it both times I started the business that I did it with, with no money. So, you can definitely do it without any money just as long as you have a product that will sell and that they want and that you know the other things we're going to talk about in this course. But it definitely can be done.

I started out before I started my first company; I worked at Kimberly Clark, which is a consumer products company and I was there as a product manager for three years and I saw how big companies do it and big companies spend a lot of time, money, and effort on research and development, but they also have a lot of clout.

Michael: Give me a little picture of who Kimberly Clark is. Are they located in the United States and what products, how big of a consumer products company were they so that I got an idea.

Joe Oh okay. They are in Wisconsin and they're a competitor to Proctor & Gamble. So, they're many billions. They make Huggies Diapers. They make Kleenex and dozens of other brands. So, they're in pretty much every retail store there is just like Proctor & Gamble is. So, they're a huge company. What I was doing there is I was a product manager, which means you're in charge of marketing a product and at a big company like Kimberly Park, in the case of the consumer products like Huggies Diapers, a product manager doesn't have a lot authority because you're talking about a billion dollar brand they're going to want to have top management is going to get involved.

I had a much smaller category. But one of the things I learned there is when I wanted to do a test market of a product idea I came up with and I wanted to put it a hundred grocery stores, if you're a little guy and just starting on your own, that's going to be a challenge. With Kimberly Clark, I could call a buyer at the time for Jewel Foods in Chicago and tell them I had a product that I'd like to test in their stores and they just said, okay fine, what is it, when do you want to start because I'm one of their biggest suppliers. So, when you find out how things work in the big company, when you're doing it on your own, you don't have those advantages. If you're the little guy and you call up, you probably won't even get through to the buyer or the person that you have to talk to. So, it is definitely easier when you're a big guy, but you can do it as a little guy, too, and you just have to understand the methods by which you do it and they're very different than how you handle it in a big company.

Michael: So, how am I going to do it? I'm not, you know, most of the people listening to this training are not billion dollar companies like Kimberly Clark. Are you going to show me some strategies of how I can get in and work like the big companies even though I'm small guy?

Joe That's the whole point because I have broken it down into five different ways that you can get into stores and one thing, though, we're going to be talking a lot about Wal-Mart and Target and the big mass merchants, there are other kinds of stores you might want to be in, too, and you might want to be in them first. But an over of the five ways, which we will spend some time on each one of these. The first way is licensing where you license your product or your idea to a company that is already in those stores. So, for example, if you have something that's in the Kimberly Clark or Proctor & Gamble type of product line, it's a possibility that you could license it to them and then they could get it in the stores easily because they're already there.

Michael: And that's where they pay you a percentage or money for the rights to put them in that store?

Joe: Yes. You typically would get a royalty as a percent of sales and maybe an upfront fee. But you have to have something that's unique that they haven't thought of that there's a good reason for. But that's way number one, least risk, least investment, and least cost on your part because you're taking advantage of somebody else's manufacturing, distribution, and customer relationship.

Method 2 is joint ventures.

Michael: What's a joint venture?

Joe That's where you do a deal with another company and I have an example I can tell you from about 20 years ago back when K-Mart was the big dog, not Wal-Mart, and at the time I had a company selling children's stickers and we were in almost every independent and mass market chain there was, except for K-Mart. And I wanted to be in K-Mart but I couldn't get in there. So, the way I did it is I did a joint venture with my competitor who was there. He was already in K-Mart and I said to him I think our product will sell better than your product. How about I sell you my product and you put it in your package? So, he said, all right we'll test that. So, he tested it. My product did in fact sell better than his, so he ended up selling all my stuff in his packaging because he was already there.

Michael: Was he already in the mass merchandisers?

Joe He was in K-Mart already.

Michael: And you weren't?

Joe And I wasn't.

Michael: And you wanted to be?

Joe I wanted to be and I couldn't get in. He was selling children's stickers, which would normally be in the stationary or toy department. He was selling it to the audio department, which was majorly weird. So, who knows what was going on there, but because I couldn't get in, I decided the best way would be a joint venture with someone who was in there already and the best one would be somebody who was a competitor who makes the identical product that I did. And the only way that I was able to pull that off is that I had a better product. And he could put my product in his package and sell more units and make more money even though he paid me for the product.

Michael: So you partnered. You had a better product. He was in K-Mart and you brought the two together to make it work mutually beneficial for both of you.

Joe That's right. So, I handled manufacturing of my product and the quality control, but he handled the marketing and distribution. So, that's another way to get into a big chain. In the five ways we're going to talk about, each way is less risk and less cost and less money to you.

Michael: Okay.

Joe So, licensing being the least amount of money, but the least risk in cost. The joint venture, I just described, I made more money there than I would have had I licensed it.

Michael: But you had more cost with the manufacturing?

Joe But I had more cost, but my bottom line profit was more. But I had more risk, more investment and all that because I was making something not just licensing it.

Michael: Okay. Even that we're going to over these in more detail what's the third one?

Joe The third one is also joint ventures and in that case it's joint venturing -- in #2, I was joint venturing with a product I already made with someone else for distribution. , In joint venture idea #3 is when you joint venture step back. In other words, you joint venture with a manufacturer who can then make it and finance it. So, you're one step further back in the process. I started one of my companies that way by setting up a joint venture with another company that had the manufacturing capabilities that I needed and we started it out that way and we ended up as it got successful and we were at the $1 million or $2 million in sales, we broke that out from the other company and set it up as a separate marketing company that we each owned half of.

Michael: You want to give me a short example of what that was as an example?

Joe The company that I was dealing with was a small screen-printer and I had product ideas for making the children's stickers and souvenir's and things of that sort that needed to be screen-printed. So, he was manufacturing doing screen-printing as custom work per order. If somebody wants something printed they go to him, he gives them price and he prints it. What I wanted to do was print something and then sell it to a retail store not just see if I could print a bumper sticker for 10-cents and sell it for 12-cents. I wanted to print it for 10-cents and sell it for 50-cents to a retailer. There's a lot more margin there, but you have to understand what the consumer wants. So, that's how I started one of my companies. That's how we got started. I took advantage. I didn't know anything about how to do the printing. I wasn't from the printing industry at that point. Down the road a bit we ended up having our marketing company that we joint ventured in got so large it bought out the manufacturing company and we ended up as partners in the whole thing. But that's how it got started as a joint venture with a manufacturer.

Number 4, the next thing was to start a company to market an idea and then outsource everything. What I did here, this was my second company, I wanted to make holographic school supplies; portfolios, 3-ring binders, spiral notebooks, pens, pencils, rulers, and you can imagine by all that kind of product the company that makes a 3-ring binder is different than the company that makes a spiral notebook is different from the company that makes a pencil and is different from the company that makes a pen. All these are different companies. So, I have my concept for a four-foot section of product that all has a similar look and I need to have a half a dozen manufacturers to make this stuff for me. So, I do the marketing company. I outsource the manufacturing to six other companies who make this stuff for me. I put it in inventory and sell it to the retail stores. So, basically what we are amounting to there is you're starting a marketing company, not a manufacturing company.

And number 5, which is where I ended up with my first company, is basically you're starting the manufacturing company. You're buying the equipment to make something, you're marketing it, you're inventorying it, you're selling it to the stores, you're doing everything, and that is, of all five of these, that's the one that costs the most money. We had $3 million dollars worth of printing equipment we had to buy and warehouses and all that. So, by the time you're in to that, you're setting up a business that's a manufacturer that has to be substantial enough in both its financing and its manufacturing capabilities to deliver large orders to big chains. And on top of that, you better have something they want to buy. So, that's the most risky. That's the method that takes the most capital, but then also it has the most margin. We made a 60% gross profit on our products even selling them to Wal-Mart and K-Mart and Target.

Michael: So, out of these five ways, the thing I believe most people think of when they think about getting their product into Wal-Mart, Target, K-Mart or any mass merchandiser, Home Depot, I think peoples' mindset is focused on that they're going to have to be like number 5; have to do everything, have to have money for manufacturing, know how to do the selling, know how to do the whole thing. But the four other ways you've just outlined make it possible for you actually to not have to do any of this and not have to use really any of your own capital. With some creative thinking in these steps here, it is possible for someone with no product and no customers and no capital to get their product into these large mass merchandisers, would you agree?

Joe That's right.

Michael: So, this is going to take a different kind of thinking that most people are used to. So, I want you to give the listeners out there some instruction on how they should be thinking as they listen through this seminar. , Should they have an open mind? Any advise on that before we really get into the program?

Joe I guess one thing I would say is you can have nothing but an idea. You don't even need a product. If you have an idea that makes sense or that could be an invention that maybe all you need. So, you can do this with zero money as long as you have an idea. And the thing that's important and that inventors, as a rule have no clue about and don't understand, is what matters is not the invention or the idea. What matters is the marketability of it. There needs to be a market for it and it needs to be something that is significantly better or different and different in a better way than what is on the market now. And what inventors typically do is, they may be engineers or have technical skills, so they invent something that uses their technical skills and they might have invented something that is a new unique thing and that it's patentable and is a way to accomplish something that can be accomplished for one-tenth the price already. So, the smart way to invent things is to start with the market and find a category that there's an existing proven demand for and then invent something that is better, different, and cheaper than what's there.

Michael: Let's move on, can we get into what are the differences in what I can make with each one of these approaches, these five approaches we've talked about?

Joe It will range from licensing will be…it sort of works risk/reward. The licensing you might make as little as 1% of sales, maybe you'll make as much as 5% or 6% of sales, and the thing you need to know there is the sales are the sales of the company you're licensing to. If you're licensing to Proctor & Gamble and they sell to a store something that the P&G sells for a $1, the store will sell for $2, your

1%, 2%, or 3% is on the $1, not on the $2. So, you're licensing royalty is based on the selling price of the company you're licensing, not the retail price. So, that's the smallest percentage would be on licensing.

In the joint venture where like the way I got into K-Mart by manufacturing is giving a big discount to somebody who is there now. In that case, they sold the product for 45-cents. I sold them the product that went in their package and I made about 5-cents. So 5-cents as to 45-cents, that's like one-ninth, so maybe roughly 10% instead of 1% or 2%. So, because I'm doing more, I'm making more.

Then other, both on when I was a marketing company only like Nike where I didn't make anything, but I outsourced it to a half a dozen other companies, and in that case, I was able to make about 50%. So, a product that I would sell to Target or Wal-Mart for a$1, I was able to make for 50-cents. And then when I actually was the manufacturer and not just the marketing company, I got another 10 points in that case and we made 60% instead of 50%. So, each way, the more you do the more you make and the more it costs you to make it.

Michael: Now, which of these five ways can I do with no money whatsoever?

Joe I actually did all of them with no money. Obviously the licensing would be easier. But I actually started the company that grew into a manufacturing company that we sold over $1 million a month of products to retailers and my partner and I basically did that with its own cash flow. I didn't have any money, so we started from nothing and we build it up and we were able to build it up into a nice company with no money.

In order to do that, whatever you're selling better have a good margin because if you're going to try to build a company with its own cash flow you need number 1, you need financing and we had lines of credit that we were able to secure for millions of dollars and we also had high margins.

Michael: Well, what if I'm in a situation where I am going to need money?

Joe Well, we'll get into that later. I think we should do a whole section on financing. There are a lot of ways to get money and each way to get money has advantages and disadvantages. At the low end, you can do a second mortgage or use a credit card. A lot of people start like that. For more money, you can do the other end of the spectrum is getting venture capital, which I've done that, as well. But for venture capital if you need less than a couple of million dollars they probably won't talk to you, and in the middle or lines of credit with banks or private investors. And I've used private investors and I've used banks, I've used asset banks, asset based lines of credit. There are many different ways to get money and in a way what I'd say it's sort of like in real estate. They say if you have a really, really good deal, deals find money. Money isn't that much of a problem.

Michael: So, you're saying there's probably more money out there than there are good deals?

Joe Right.

Michael: So, if you've got a good deal, a hot product, a good market with a proven track record, you can get the money

Joe I wouldn't worry. You're going to have to learn some things if you don't know how to raise money. You're going to have to learn some things about that and understand the pluses and minuses of the different ways of getting funding. You will be able to get it if you have a product that the end consumer will buy.

One of the things is where are you right now in this process? Do you have an idea? Do you have an invention that is or isn't patented yet? Do you have an actual product that's in manufacturing or do you have a whole product line? Those are quite different things. You can start licensing with just ideas or inventions. You can't start actually delivering a product until you have a full product.

And one thing everybody needs to understand about retail chains, especially the mass-market chains, is they're looking for product lines, not items. It's expensive for them to set up a new vendor in their computer systems. If you go in there with one single item, you're not going to get a very good reception. When I went into some of the big chains with my school supplies or my stickers, I had a four-foot section. In other words, go into a Wal-Mart and take four foot of area, floor to the top of the racks there and I could fill that whole thing with different products. So, I could go in and talk to them about whole merchandising section of products or a product line.

Michael: So, what you're saying, if I'm a company that has one product, I am not going to have a very good chance of getting that one product into any of these mass merchandisers?

Joe That's correct and there is an exception. The exception is, or two exceptions are (1) if you have a licensed character. I can remember when we licensed, a long time ago we licensed Star Wars for some products and since we were the only company with the license for that and that was a hot movie, then you could get in.

Michael: Okay.

Joe Another example is if you have a single product, but it's expensive, like $100 retail or something. In that case, you might be able to get in with a single product, as well.

Michael: Give me the psychology, why is it the mass merchandisers don't want to take on single products other than the exceptions you're talking about.

Joe Well, there's quite a cost to having a vendor in their computer system. Wal-Mart probably has, they might have as many as 15,000 vendors. So, that's an awful lot of suppliers and they could easily have a couple 100,000 products. The idea of having that many vendors in the system is unworkable. I can recall when I was talking to a Target buyer a few years ago, he was telling me that they had a corporate edict to reduce the number of vendors because of all the cost associated with having many vendors. So, they had a corporate policy to try to reduce. If they could buy product A and product B from one company instead of two, they'd do that because of the savings of administrative and IT savings.

Michael: So, if I'm going to get my product into one of the mass merchandisers, I'm going to have to make a sale. But I need to know if I'm going to make the sale and I want to do it the best way possible, I've got to understand who is my customer. Who is my customer?

Joe That's the thing most companies or most people trying to do this miss. You either have two or three levels of customers. If you're licensing your first customer is the manufacturer and you need to meet their needs. The second one is the buyer at the retail store, and the third is the consumer who buys the product. And if you have a product that that end consumer will buy, but your product and your offering doesn't work for the buyer at the store or the manufacturer, if you're licensing, you will not make a sale. You have to sell all the levels in the distribution channel for it to work. And people get hung up on "oh people will love this product, they'll buy it." Well, that may be, but if you can't give the retail store the margin they need, or if you're licensing, if the manufacturing doesn't get the margin they need, you're dead in the water.

Michael: Okay. So, I've got to be thinking my manufacturer, the buyer, and the end consumer, these are my customers.

Joe: Right. And I'll give you an easy rule of thumb to use. Saying now that you're either making it or causing it to be made, the thing you want to look at when you look in a retail store to see your competition, look at the price something sells for and divide that by five. If something is selling for a $1, if you can't get the thing made for 20-cents move on to something else. And the reason for that is figure the retailer buys it for half of what they sell it for, just as a ballpark estimate, and that if you as a manufacturer want a 60% gross profit so that you have the room in there to pay sales reps, pay marketing, and advertising and all of that, that is another two and a half times; so two and a half times two is five. If you don't have a five-time margin, you're dead. And if a five-time margin just gets you to have a similar product at a similar price to what's there now, then you have no compelling reason for the retailer to put your product in. There is no advantage to that.

Michael Who is my competition?

Joe: Your competition if you're making, let's say you're making combs, your competition is obviously other comb companies or other comb products, which is what everybody sees. What you don't see is your competition is every other product in that category in the store.

Michael: Give me an example of a category that I could relate to.

Joe: One would be health and beauty aids. One that I was in a lot was stationary. And I was also in school supplies and I was also in toys. Each one of those is a separate category. So, the area I was in most was school supplies and stationary. So, I'm selling a holographic portfolio, say. All right, there are no other holographic portfolios. So, if I think like many people would think, I've got a unique product nobody else has it, it doesn't have a competitor, and I would be totally wrong. There are other portfolios in the stores at different price points, but what I'm competing with them is for shelf space, and I'm competing with everything else in the stationary department like Hallmark cards. What that buyer wants to do…it's his job is to maximize the gross profit in his responsibility area for his category. So, your competition is everything else in that category, not just the physical item that you've got.

Michael: So, how do I plan which is the best way to go, Joe?

Joe: Well, that's going to depend on you really. What is it that you want? What are your personal interests? If you're a manufacturer, you're already making something you want to get it sold. If you're inventor, you may want to stick to inventing and not have to learn all the things that are in this course. Some of this you might rather have someone do for you. So, it has to do with what your interest is, what resources do you have or have available to you, and what your experience is. It makes a lot of sense that if you have experience as an inventor, but no experience with marketing, it makes sense for you to do inventing and let other people do the marketing. If you're a manufacturer and you know how to make something, but you really don't know the U.S. market or you've been manufacturing for other people who sell, you may want to continue to manufacture and do what you're good at and do a joint venture with somebody else who can sell it for you. So, it really comes down to where are you at right now.

Michael: What if I want to start a business, but have never done it before?

Joe: Well, that's what I did. I've done it four times now; I started businesses. The most important characteristic you need there is tenacity. You're going to make a lot of mistakes. I made lots of mistakes. You're going to make a lot of mistakes. You've got to have the attitude you're not going to give up and you're going to get it done. It's the most difficult way of getting a product made and distributed is to start the company, manufacture it yourself, sell it yourself because you're now responsible for every step along the way.

On the other hand, having your own company is sort of fun and can definitely be profitable and that's where the biggest homeruns happen. If you start a manufacturing company and you build a product up and it's profitable and consumers want it and before you know it, you could be in the hundreds of millions of dollars and sell your company for a huge amount of money. Very large many million-dollar pay off is pretty much occurs when you sell a business. You're not going to get the $50 million pay off from licensing.

Michael: If I'm a international manufacturer and I reside outside of the United States, are there any advantages for me that give me a competitive advantage of getting my product in?

Joe: Oh sure. If you're over in China or in Mexico or somewhere where the labor costs are low, you have a cost advantage. You're able to manufacture things for a lot less money than domestic U.S. suppliers are. So, you then, of course, have several choices. You can learn how to sell the retailer yourself or you can partner with somebody else, but your biggest advantage, as an off shore supplier, is going to be the cost of manufacturing.

In conclusion for Section 1, the Introduction, the main thing you need to have gotten out of this section is that it is possible for anybody to get a product, create it, and into mass market. There are many ways of doing it and we'll cover a lot of those details, but it is possible for pretty much anybody to do at any level of resources.

The next section we're going to cover is how do you tell if you're ready to sell to Wal-Mart, Target, or other mass merchants.

Michael: This is the end of Section 1. Please continue to Section 2.